

Message Text

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ACTION EUR-12

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AMEMBASSY BONN

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AMEMBASSY DUBLIN

AMEMBASSY PARIS

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

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E.O. 11652: N/A

TAGS: EINV, GEN, UK

SUBJECT: THINK-TANK REPORT ON THE BRITISH AUTOMOBILE
INDUSTRY

THE MUCH-ANTICIPATED CENTRAL POLICY REVIEW REPORT ON
THE FUTURE OF THE BRITISH CAR INDUSTRY (THE SO-CALLED/
THINK TANK REPORT) WAS RELEASED ON DECEMBER 16 TO
COINCIDE WITH INDUSTRY SECRETARY VARLEY'S STATEMENT
ON THE CHRYSLER RESCUE PACKAGE BEFORE A LARGELY
SKEPTICAL AND RESTLESS HOUSE OF COMMONS (SEE SEPTTEL).
THE REPORT, WHICH IS ADMIRABLY NON-PARTISAN, PERCEIVES
UNDERLYING PRMBLEMS SUCH AS (A) INABILITY OF BRITISH
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CAR INDUSTRY TO COMPETE NOW, LET ALONE IN FUTURE WITH

FOREIGN FIRMS; (B) EXPECTED FIERCER COMPETITION AS EXPORT MARKETS SHRINK IN EUROPE AND THE US; (C) RAPID GROWTH IN THIRD WORLD, JAPANESE AND EASTERN EUROPEAN PRODUCTION. REPORT SHUNS IMPORT CONTROLS AS A SOLUTION, BUT PROPOSES INSTEAD A WHOLE SERIES OF MEASURES FROM PLANT MODERNIZATION AND RATIONALIZATION TO GREATER WORKER PARTICIPATION IN THE RUNNING OF THE FIRM.

ACTIVE GOVERNMENT AND TRADE UNION LEADERSHIP IS ESSENTIAL, AND UNDERLIES A PRINCIPAL THEME RUNNING THROUGH THE REPORT - THE PROBLEM OF ATTITUDES. AS THE REPORT PUTS IT "PRESENT TRENCH-WARFARE ATTITUDES OF MANAGEMENT AND LABOR WILL NOT SERVE IN THE ASSEMBLY INDUSTRIES OF 20TH CENTURY WESTERN EUROPE" END SUMMARY.

THE THINK-TANK REPORT IS AN EXTREMELY FRANK AND OBJECTIVE APPRAISAL OF THE MANIFEST ILLS - LARGELY SELF-INFLICTED - OF THE BRITISH AUTOMOBILE INDUSTRY. SUMMARY AND CONCLUSION SECTIONS WILL BE SUBMITTED BY AIRGRAM AND FULL TEXT IS AVAILABLE IF REQUESTED. PRINCIPAL POINTS OF THE REPORT ARE AS FOLLOWS:

1. WESTERN EUROPEAN AND THE UK AUTO INDUSTRIES ARE INTEGRATING RAPIDLY WITH EACH OTHER, AND THE MULTINATIONALS INCREASINGLY MAKE DECISIONS ON INVESTMENT, PRODUCTION, PURCHASES ETC ON PURELY ECONOMIC GROUNDS - THUS FURTHER HANDICAPPING SMALL-SCALE, INEFFICIENT AND UNDEPENDABLE BRITISH SUPPLIERS.

. FACED WITH ONLY VERY SLOW RECOVERY OF SALES IN WESTERN EUROPE, AND CONTRACTION OF OVERSEAS MARKETS DUE TO FIERCE COMPETITION, CAR PRODUCTION IN WESTERN EUROPE IS UNLIKELY TO REACH 1972-73 LEVELS UNTIL 1985, RESULTING IN ACROSS-THE-BOARD 25 PERCENT OVERCAPACITY IN WESTERN EUROPE OVER THE NEXT SEVEN YEARS.

2. UK CAR INDUSTRY HAS CONTRACTED RAPIDLY DUE TO (A) POOR DISTRIBUTION NETWORKS (B) OUTDATED MODELS (C) UNDERINVESTMENT (D) POOR QUALITY (E) SLOW DELIVERY (F) UNCLASSIFIED

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POOR LABOR RELATIONS, AND (G) HIGH COSTS, SPECIFICALLY LOW LABOR PRODUCTIVITY (ABOUT HALF THAT OF WESTERN EUROPE) DUE TO OVERMANNING, SLOWER WORK PACE AND POOR MAINTENANCE.

3. THE REPORT GIVES VARIOUS ESTIMATES ON MARKET SIZE BY 1985, AND CONCLUDES THAT THE CASE IS STRONG FOR A VOLUME CAR INDUSTRY IN BRITAIN ON THE GROUNDS OF BALANCE

OF PAYMENTS AND SOCIAL EFFECTS. HOWEVER, THE REPORT
GOES ON TO SAY - "THERE IS NOT THE SLIGHTEST CHANCE
(OF AC/H/EVING THIS) IF PRESENT ATTITUDES PERSIST
THE PROBLEMS OF PRODUCTIVITY ARE AT THE CENTER OF THE
INDUSTRY'S PROBLEMS. THE COMPETITIVE POSITION OF THE
BRITISH CAR INDUSTRY WILL NOT BE IMPROVED MERELY BY
REDUCING THE NUMBER OF MODELS OR BY CLOSING PLANTS IF,
AT THE SAME TIME, OUTPUT FAILS TO IMPROVE IN THE
REMAINING PARTS OF THE INDUSTRY. THE INDUSTRY WILL ONLY

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AMEMBASSY BONN

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BE VIABLE, PRODUCING 1.9 MILLION CARS A YEAR, IF IT EMPLOYS IN 1985 A SMALLER WORKFORCE THAN IT DOES TODAY." AFTEP RECOMMENDING A NUMBER OF OTHER

APPROACHES HMG SHOULD TAKE DESIGNED TO MITIGATE THE SITUATION, THE REPORT LEADS ON TO A SUMMARY-CONCLUSION.

COMMENT: PRELIMINARY REACTION TO THE REPORT HAS BEEN GENERALLY FAVMRABLE ALTHOUGH THE LONDON TIMES QUOTES ONE TUC OFFICIAL TO EFFECT THAT IT WAS "COMPILED BY SELF-APPOINTED EXPERTS". REPORT IS BOUND TO HAVE WIDE UNCLASSIFIED

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IMPACT AND ACCEPTANCE AS BEING PRODUCT OF A THOROUGHLY IMPARTIAL, GOVERNMENT-COMMISSIONED BODY. IMPACT IS FURTHER LIKELY TO BE HEIGHTENED BY REPORT'S EMPHASIS ON RATIONALIZATION OF UK AUTOMOBILE PRODUCTION, INCLUDING PHASING OUT OF INEFFICIENT PLANTS AND EXCESSIVE WORK FORCE. THE REPORT WAS PUBLISHED ON THE SAME DAY AS INDUSTRY SECRETARY VARLEY'S EXPLANATION OF THE PLAN TO RESCUE CHRYSLER (SEE SEPTTEL). THE APPARENT CONTRAST BETWEEN THE REPORT'S RECOMMENDATIONS AND SALIENT FEATUPES OF THE CHRYSLER PLAN HAS NOT GONE UNNOTICED IN PARLIAMENT OR BY THE PRESS AND THE PUBLIC.

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